Climate Startups’ Secret Weapon To Meet Their Missions

Climate tech startups are embracing a formerly niche corporate form, the public benefit corporation, as a way of holding themselves accountable to their missions.

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(Protocol, who published this article originally, shuttered in late 2022 and this article is no longer available online, hence this janky self-hosted version of it!)

Nearly every company today claims to be mission-driven. But the quest for profits and shareholder demands can often get in the way of more altruistic goals.

A new wave of climate-focused startups is trying to mitigate those competing interests using a wonky and somewhat dry piece of business incorporation status that’s existed for more than a decade: the public benefit corporation. Ultimately, PBCs are just one attempt — albeit a still untested one — to better align the capitalist system with combatting the climate crisis.

“Can you solve the problem with the same system that created the problem? It just seems so silly to look that question in the eye and say categorically, ‘Yes,’” Chris Tolles, the co-founder and CEO of Yard Stick, said. For him and other climate startup founders, going the PBC route is one way to get closer to that “yes.”

Yard Stick, a startup that measures soil carbon, incorporated in 2020 as a PBC. Going the PBC route has helped Tolles stay true to the company’s mission of improving soil carbon sequestration efforts via its measurement technologies while taking the venture investment required for growth. “I think, on a long enough time scale, most of capitalism is at odds with the right climate solutions,” Tolles told Protocol.

An increasing number of mission-driven companies are incorporating as PBCs, with 19 even listed on the U.S. stock exchange, including Planet Labs and AppHarvest.

There’s one major distinction between PBCs and traditional corporations: PBCs are just as accountable to their corporate mission or “public benefit” as they are to their fiduciary duty to shareholders. In other words, unlike traditional companies (in which a mission such as doing no harm to the planet is a nice marketing slogan), PBCs have a legal obligation they must take as seriously as maximizing quarterly returns.

Being a PBC was important to Maddie Hall, co-founder and CEO of synbio-focused carbon capture and storage startup Living Carbon, because she knew there were instances where she'd want to give the company's genetically modified trees away for free, whether in developing countries, nature outreach programs or some other instance. "I wanted to be able to preserve my ability to do that contractually," she said.

Another advantage, according to Hall, is being able to say no to potentially lucrative carbon removal projects. Within the carbon removal space, land ownership is a particularly contentious issue with regards to environmental justice. Hall doesn't want to work on projects on land belonging to Indigenous communities or work on land owned by the oil and gas industry.

If Living Carbon were a traditional C corporation, shareholders could theoretically sue the company in those scenarios for not maximizing returns (and likely win). But because it's a PBC, giving away trees or saying no to ethically dubious projects is protected by the company's charter. (To be clear, the risk of investor lawsuits is much more likely against large corporations than smaller startups.)

For Wren co-founder and CEO Landon Brand, being a PBC helps hold the carbon offset startup accountable to itself, investors and the public.

One of the articles in the company's charter is that Wren will be radically transparent, including publishing financial and operating metrics. (That also includes making its charter available online.) A competitor could look at Wren's financial reports and how much it's spending on YouTube creator marketing and potentially offer those creators a better deal. But Brand is OK with that, because helping competitors "is really just helping move our mission forward in having as much impact as we can on the climate crisis," he said.

Susan Mac Cormac, a partner at Morrison & Foerster and chair of the firm's energy and social enterprise and impact investing practices, said she's recently witnessed a "sea change" in mainstream corporate awareness and acceptance of PBCs. Benefit legislation was first passed in 2010 in Maryland, followed closely by Vermont. Today, 36 states plus the District of Columbia offer companies the chance to incorporate as PBCs. (That includes Delaware, where a majority of publicly traded companies are incorporated.),

PBCs are one form of corporate structure or "scaffolding around a business" that can shield against greenwashing and "bad behavior," she said. Founders have started embracing the PBC designation over the past few years, Mac Cormac said. That's partly because of amendments in the Delaware PBC statute made in 2020 that makes it easier for businesses to convert, and partly because the option to become a PBC has simply become better known.

Public pressure has also played a part in the rise of PBCs. Corporate interest in PBCs has been rising due to the increasing popularity of ESG and impact investing, as well as due to a greater consumer focus on "corporate purpose," according to a 2020 Ropes & Gray memorandum. Founders are also increasingly talking about the potential upsides with each other.

In Mac Cormac's view, the biggest advantage of being a PBC is when a sale comes into play: The company's board wouldn't be allowed to approve a sale to the highest bidder if the acquiring company wouldn't maintain the public benefit. She used Twitter as an example; if the company had been a PBC, it could have potentially rejected Elon Musk's bid out of hand.

Ultimately, the bigger the company, the greater the benefits of being a PBC. According to founders who've incorporated their startups as PBCs, it's a way of making sure that the mission is baked into the identity of the company, regardless of if shareholders disagree with founders, if the company is acquired or if a new CEO with a different vision takes over. "A founder that thinks that they'll always be in control, that their investors will always agree with them and share their values, is a fool," Tolles said.

For early-stage climate tech companies, being a PBC is mostly about projecting values and making it clear to investors and the public that they're serious about their mission — not just talking the talk.

"I felt like it was actually a selling point to the right investors," Hall said. Living Carbon is backed by a number of big names in the VC world, including Lowercarbon Capital and Y Combinator.

Being a PBC has likewise been helpful for Tolles in weeding out investors that might have a problem with Yard Stick "forsaking some measure of commercial upside in the future."

Mac Cormac warned that PBCs are not a panacea for mission-driven founders. Notably, the designation isn't permanent; a majority of shareholders could still vote to convert to a traditional corporation. If founders want to ensure that their company remains a PBC regardless of investor opposition, they have to take golden shares or a certain class of equity that makes it impossible to convert out of PBC status without the consent of that class.

Still, Hall said "there's no real downside" to incorporating as a PBC, pointing to the fact that a number of PBCs have gone public. "For anyone that wants to assert that they're not going to be predatory in how they conduct their business and practice the highest ethical standards, I think it's a great option," she said.

Tolles takes a more hardline perspective. He recommends that other climate startup founders "be a PBC or reckon deeply with why. Don't be a coward."